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RUEHBW/AMEMBASSY BUENOS AIRES 4405
RUEHCV/AMEMBASSY CARACAS 1688
RUEHPE/AMEMBASSY LIMA 1694
RUEHMN/AMEMBASSY MONTEVIDEO 3902
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RUEHLMC/MILLENNIUM CHALLENGE CORP
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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW
MCC FOR AKIRSHENBAUM

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SUBJECT: MILLENNIUM CHALLENGE ACCOUNT UPDATE

REF: STATE 101248

¶1. (SBU) Summary: Econoff delivered reftel information to Bolivia's Millennium Challenge Account (MCA) representative, Javier Hurtado, on July 5. Hurtado was optimistic that Bolivia would not follow in the Gambia's footsteps. He plans to contract seven technical team members within the next week. He emphasized the importance of the U.S. market for Bolivian producers and repeated the GOB's plea for extension of ATPDEA benefits. He claimed that the GOB wants to reduce coca cultivation for both counternarcotics and environmental reasons and that providing farmers with fair trade opportunities would reduce coca growing. He said that the construction of the proposed MCA-funded northern road should be done in conjunction with a program to ensure sustainable forestry management. End summary.

GOB Optimistic that Bolivia Will Not Follow Gambia

¶2. (SBU) Econoff discussed the Millennium Challenge Corporation's (MCC's) suspension of Gambia's eligibility with Bolivia's Millennium Challenge Account (MCA) Representative, Javier Hurtado, on July 5 per reftel. Econoff reminded Hurtado of the importance of maintaining passing scores on the MCC's 16 indicators to obtain MCA funds, particularly in the areas of democracy, rule of law, and promoting economic freedom, as discussed by Hurtado with MCC officials during his June trip to Washington. Hurtado expressed optimism that the GOB would continue to qualify for MCA funds and would improve its relationship with the USG. He asserted that the outcome of the July 2 Constituent Assembly (CA) elections was positive as the representation of multiple parties and interest groups ensured that the MAS could not consolidate power. He said that although Bolivia sympathized with Cuba, the GOB did not intend to implement a communist economic agenda, but rather would focus on finding markets and fair trade opportunities for the nation's indigenous entrepreneurs.

MCA Process Moving Forward

¶3. (SBU) Hurtado told Econoff that the World Bank has approved funding for Bolivia's MCA technical team; however, World Bank official Oscar Antezana told us that the World Bank has not committed any such funds. Hurtado has identified eight team participants -- himself, an environmental specialist, a development expert, a civil engineer, a monitor, an administrator, a treasurer, and a social consultant. He said that contracts would be signed within the next few days and that the team would begin working by early September. Hurtado, the owner of a successful organic food company, plans to commit himself full-time to moving the MCA process forward once the team is up and running. He said that the GOB is ready to focus more attention on the MCA process now that CA elections are over. He asked us to notify him if "the door of opportunity for MCA funds is closing" on Bolivia so that he may plan accordingly.

ATPDEA Concerns and Trade Agenda

¶4. (SBU) Hurtado expressed concern that non-renewal of ATPDEA trade benefits for Bolivia would harm its chances of receiving MCA funds, would damage its economy, particularly in El Alto, and would damage the bilateral relationship. Econoff responded that ATPDEA benefits were not linked to MCC benefits, but that Bolivia's commercial policies and trade openness were factors considered by the MCC, along with rule of law, including counternarcotics cooperation. Hurtado replied that Bolivia would like to negotiate a trade agreement with the U.S., but qualified that such trade agreement must be designed to decrease the inequalities between the two economies. He argued that a Free Trade

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Agreement was appropriate for a country like Canada that had a similar level of development as the U.S., but not for Bolivia, which was on vastly unequal footing. He acknowledged that U.S. market access is vital for Bolivian producers.

Coca Production

¶5. (SBU) On coca, Hurtado replied that the GOB was committed to decreasing coca cultivation, not only to reduce cocaine production but also to limit environmental damage done by coca growers. He argued that providing farmers with markets and fair trade opportunities would do more to decrease coca cultivation than eradication. He explained that he was requesting Inter-American Bank (IDB) funding to bring fifty organic trade association representatives from the U.S. to Bolivia to discuss exports of Bolivian products. He said that this type of initiative, in conjunction with the proposed MCC-funded northern road project, could enable farmers to escape poverty by transporting and selling their products. He said that prior alternative development efforts had not achieved their goals because of the intermediation of corrupt government officials. He noted that the Morales administration sought to distance itself from former corrupt leaders, but not from donors. Hurtado advised that the U.S. and other donors take a proactive approach to the Morales administration in order to counter Venezuelan influence in Bolivia. (Comment: Contrary to Hurtado's suggestion, several ministries, including Development Planning and Government, have sent us signals that our involvement in some matters is unwanted. Increased U.S. largesse seems unlikely to deter Venezuela's actions or the GOB's acceptance of such actions. End comment.)

Environmental Concerns About Proposed Road

¶6. (SBU) Hurtado said that the proposed northern road should be constructed in conjunction with a program to ensure that local communities and migrants from other regions managed the forests sustainably. He feared that road construction might lead to irresponsible logging companies or migrant farmers moving into the area and cutting trees, although the land was

not suitable for cultivation.

¶7. (SBU) Comment: Although the GOB's actions to date indicate potential problems in the areas of rule of law (contract violation/intimidation of judiciary), civil liberties (press intimidation), fiscal policy (large spending plans), trade policy (no FTA negotiations), and regulatory quality (increased GOB role in the economy and elimination of independent regulatory system), the GOB could possibly improve its scores on the investing in people, political rights, and control of corruption categories if it is true to its stated goals of improving health and education, increasing indigenous political inclusion, and combating corruption. Hurtado seems a capable manager of the MCA process, but the GOB's economic and political policies could prove to be his largest stumbling blocks. End comment.

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